

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of)

DOMESTIC BANK)

Cranston, Rhode Island)

(OTS No. 13964))

and)

CREDIT NORTHEAST, INC.,)

An operating subsidiary of the bank)

Re: Order No. NE-05- 01

Date: FEBRUARY 3, 2005

STIPULATION AND CONSENT TO ISSUANCE OF AN ORDER TO CEASE AND DESIST

This Stipulation and Consent to Issuance of an Order to Cease and Desist ("Stipulation"), which concerns the accompanying and above-referenced Order to Cease and Desist (the "Order"), is submitted by DOMESTIC BANK, Cranston, Rhode Island (the "Bank", OTS No. 13964) and by CREDIT NORTHEAST, INC. ("Credit Northeast"), a Bank operating subsidiary, to the Office of Thrift Supervision ("OTS"), which is acting through its Northeast Regional Director ("Regional Director").

WHEREAS, the OTS, based upon information derived from the exercise of its regulatory responsibilities, has informed the Bank that the OTS is of the opinion that grounds exist to initiate administrative proceedings against the Bank and Credit Northeast pursuant to 12 U.S.C. § 1818,¹ and

WHEREAS, the Bank and Credit Northeast, desire to cooperate with the OTS and to avoid the time and expense of such administrative proceedings, and

WHEREAS, the Bank and Credit Northeast enter into this Stipulation (i) without any adjudication on the merits, (ii) without admitting or denying that such grounds exist to initiate such an administrative cease-and-desist proceeding, (iii) without admitting or denying the OTS Findings of Fact (at Paragraph 2 below) but only admitting the statements and conclusions concerning Jurisdiction (in Paragraph 1 below), and (iv) solely for the purpose of settling this matter in accordance with Rule 408 of the Federal Rules of Evidence and equivalent state provisions.

NOW, THEREFORE, on these premises, the Bank and Credit Northeast hereby stipulate and agree as follows:

¹ All references in this Stipulation and in the Order are to the United States Code as amended.

1. Jurisdiction.

(a) The Bank is a "savings association" within the meaning of 12 U.S.C. § 1813(b), and 12 U.S.C. § 1462(4). Accordingly, the Bank is an "insured depository institution" as that term is defined in 12 U.S.C. § 1813(c).

(b) Credit Northeast is a wholly owned operating subsidiary of the Bank, and is a "subsidiary" of said savings association for purposes of 12 U.S.C. §§ 1464(d)(7)(C) and 1818(b).

(c) Pursuant to 12 U.S.C. §§ 1813(q) and 1464(d), the OTS is the "appropriate Federal banking agency" with jurisdiction to maintain administrative enforcement proceedings against savings associations and subsidiaries thereof. Therefore, the Bank and Credit Northeast are subject to the authority of the OTS to initiate and maintain administrative cease-and-desist proceedings against them pursuant to 12 U.S.C. § 1818(b).

2. OTS Findings of Fact.

The OTS finds that the Bank and Credit Northeast have engaged in the unsafe or unsound practices and regulatory violations identified below.

A. Unsafe or Unsound Practices Relating to Outsourced Lending Activities

In 2004, the Bank, operating through Credit Northeast (its wholly owned operating subsidiary), entered into a relationship with Secure Marketing Group, Inc. ("Secure Marketing"), and Secure Lending Corp. (collectively the "Secure Companies"). The Bank and Credit Northeast participated in the implementation by the Secure Companies of the "Secure Plan", which involved the making of Secure Plan Loans (described below) and is further described in the written Business Plan of the Secure Group of Companies. The Bank and Credit Northeast outsourced to Secure Marketing the training and oversight of mortgage loan originators introduced to the Bank by Secure Marketing and purportedly designated as part-time employees of Credit Northeast (the "Secure Plan Loan Originators"). The Bank originated mortgage loans, having negative amortization features, that were marketed by the Secure Plan Loan Originators (the "Secure Plan Loans") as payment-option loans. The written Business Plan of the Secure Companies indicates that insurance, annuities, and other investment products were to be marketed with the Secure Plan Loans.

The OTS finds that the Bank and Credit Northeast engaged in, or otherwise participated in, unsafe or unsound practices relative to the Secure Plan in light of the following:

- (i) The Bank's Board of Directors had not formally approved the Secure Plan, the general form and terms of the Secure Plan Loans, or the contracts with Secure Marketing;
- (ii) Notwithstanding the fact that one of the Secure Companies is named Secure Lending Corp., Credit Northeast, without making trade-name filings under state law, purported to engage in certain activities under the trade name of "Secure Lending" while Secure Lending Corp. continued to operate in the same market area;
- (iii) The Bank and Credit Northeast, without adequate controls, allowed persons affiliated with the Secure Companies to write checks against (and otherwise draw funds from) a

Credit Northeast checking account into which funds related to Secure Plan Loans were deposited;

- (iv) The Bank and Credit Northeast outsourced to Secure Marketing compliance-related activities over the Secure Plan Loan Originators, and did not have available for OTS's inspection: (A) documentation showing that the Secure Plan Loan Originators received appropriate and Bank-reviewed training to ensure their compliance with OTS regulations and other applicable laws and regulations, or (B) a written compliance program specifically addressing the Bank's supervision and control of the Secure Plan Loan Originators; and
- (v) The Bank (and Credit Northeast) lacked adequate controls, monitoring and oversight of the activities of Secure Marketing, which was to include (i) oversight of the Secure Plan Loan Originators and (ii) marketing activities.

Secure Marketing asserted to a Rhode Island regulatory agency that Secure Marketing was entitled to federal pre-emption from state law requirements due to its arrangements with the Bank/Credit Northeast. In light of the Bank's inadequate on-site documentation, controls, training and oversight relative to the Secure Plan, OTS has determined that Secure Marketing and the Secure Plan Loan Originators failed to qualify for federal pre-emption, under the Home Owners' Loan Act and OTS regulations, from applicable state registration and licensing requirements.

B. New Subsidiary Activity Without Required Regulatory Filings

The OTS finds that Credit Northeast's participation in the Secure Plan, in the manner summarized above, constituted a "new activity" requiring the filing of a new-activity notice with the OTS and the FDIC pursuant to 12 C.F.R. §§ 362.15 and 559.11. Also see 12 U.S.C. § 1464(d)(7)(D). The Bank and Credit Northeast failed to file a new-activity Notice for the secure plan contrary to the aforesaid regulations.

C. Inaccurate and/or Misleading Advertising

Marketing information about the Secure Plan Loans (including information on one or more Internet sites) used by the exclusive agents of the Bank and Credit Northeast included inaccurate and/or misleading information in violation of 12 C.F.R. § 563.27. For instance, such marketing materials – (i) created confusion about the identity and structure of Secure Lending, (ii) inaccurately indicated that the Pontiac Avenue office of one of the Secure Companies was a branch of the Bank or Credit Northeast, and (iii) stated that Secure Plan Loans would bear an Annual Percentage Rate ("APR") of 1.579% when the Bank had no intention of making Secure Plan Loans at such a low APR.

3. Consent.

- (a) The Bank and Credit Northeast hereby consent to the issuance by the OTS of the Order.
- (b) The Bank and Credit Northeast further agree to comply with the terms of the Order upon its issuance. The Bank and Credit Northeast further stipulate and agree that the Order complies with all requirements of law, as applicable.

4. Finality.

The Order is issued by the OTS under the authority of 12 U.S.C. §§ 1818(b). Upon the issuance of the Order by the OTS, acting by and through the undersigned Regional Director (which term also shall refer to the Regional Director's authorized designees), the Order shall be a final order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

5. Waivers.

The Bank and Credit Northeast hereby waive the following:

- (i) The right to be served with a written notice of the OTS's charges;
- (ii) The right to an administrative hearing of the OTS's charges; and
- (iii) The right to seek judicial review of either the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order.

6. Scope of Release.

(a) Upon the OTS's issuance of the accompanying Order, following the OTS's acceptance of this Stipulation executed by the Bank and Credit Northeast, OTS does release and discharge the Bank and Credit Northeast from all potential claims and charges that have been or might have been asserted by the OTS pursuant to 12 U.S.C. § 1818(b), based on the violations and unsafe or unsound practices described in the Findings of Fact set forth in Paragraph 2 of this Stipulation. This release shall not preclude or affect any right of the OTS to determine and ensure compliance with the terms and provisions of this Stipulation and the accompanying Order.

(b) The Bank and Credit Northeast acknowledge and agree that their consent to the issuance of the accompanying Order is solely for the purpose of resolving certain OTS administrative charges as provided by Paragraph 6(a) above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, liability, or other administrative, civil, or criminal proceeding that may arise relative to matters addressed in Paragraph 2 hereof or otherwise, and that may be or have been brought any by any governmental entity other than the OTS.

7. Miscellaneous.

(a) The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

(b) All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.


(c) The section and paragraph headings in this Stipulation and the Order are for convenience only, and such headings shall not affect the interpretation of this Stipulation or the Order.

(d) The terms of this Stipulation and of the Order represent the final written agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

(e) This Stipulation and the Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Regional Director, or other authorized representative.

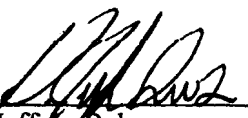
WHEREFORE, the Bank and Credit Northeast each execute this Stipulation, intending to be legally bound hereby.

DOMESTIC BANK

By: 
Nathaniel B. Baker
President

Date: 2/2/, 2005

CREDIT NORTHEAST, INC.

By: 
H. Jeffrey Baker
President

Date: 2/2/05, 2005

Accepted by:

OFFICE OF THRIFT SUPERVISION

By: 
Robert C. Albanese
Regional Director

Date: The Effective Date hereof (as indicated above)

In the Matter of)
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DOMESTIC BANK)
Cranston, Rhode Island)
(OTS No. 13964))
and)
CREDIT NORTHEAST, INC.,)
An operating subsidiary of the bank)

Order No. NE-05-01

Date: February 3, 2005

WHEREAS, DOMESTIC BANK, Cranston, Rhode Island (the "Bank") and Credit Northeast, Inc. ("Credit Northeast"), a subsidiary of the Bank, each have executed a Stipulation and Consent to Issuance of an Order to Cease and Desist ("Stipulation"); and

WHEREAS, the Bank and Credit Northeast, by their execution of the Stipulation, have consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to 12 U.S.C. § 1818(b);¹ and

WHEREAS, the Director of the Office of Thrift Supervision ("OTS") has delegated to the Regional Directors of the OTS the authority to issue consent orders on behalf of the OTS pursuant to provisions of Section 8 of Federal Deposit Insurance Act, 12 U.S.C. § 1818.

1. Cessation of the "Secure Plan" Program.

(a) Except with the prior written non-objection of the OTS and of the FDIC, pursuant to 12 C.F.R. §§ 559.11 and 362.15, neither the Bank nor any of its subsidiaries (including but not limited to Credit Northeast) shall operate or otherwise engage in activities related to the “Secure Plan” (defined in Paragraph 2 of the Stipulation).

(b) The Bank and its subsidiaries, including but not limited to Credit Northeast, shall no longer use the term “Secure Lending” in their marketing materials or otherwise.

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(c) Within five business days of the Effective Date hereof, the Bank shall close all checking and other deposit accounts (except for loan servicing accounts) maintained at the Bank in connection with the Secure Plan, including but not limited to accounts in the name of Secure Lending and Secure Lending Corp. By February 28, 2005, the Bank shall submit to the OTS's Assistant Director in Massachusetts a written reconciliation report for each of the closed accounts since inception, which report shall identify the purpose, amount and date of all debits and credits and any outstanding or unreconciled items.

2. Regulatory Non-Objection Needed Prior to New Activities/Business Arrangements.

(a) The Bank shall submit an application or notice, pursuant to 12 C.F.R. §§ 362.15 and 559.11, and receive prior written non-objection of the OTS and of the FDIC before Credit Northeast or any other subsidiary of the Bank engages in any new activity.

(b) (i) The Bank also shall seek and obtain written non-objection of the OTS no less than thirty (30) days prior to engaging in any Covered Activities.

(ii) For purposes of this Order, "Covered Activities" means: (A) any new agent relationships or other outsourcing of activities relating to the sale, marketing and distribution of Bank products and services, (B) any other new relationship(s) requiring the submission to the OTS of a notice pursuant to 12 U.S.C. § 1464(d)(7)(D) (as implemented by OTS Thrift Bulletin 82a), and (C) any new joint ventures or other profit-sharing relationships, directly or through one or more subsidiaries, with any third parties other than federally regulated "insured depository institutions" (within the meaning of 12 U.S.C. § 1813(c)(2)).

(iii) The following shall not be deemed to be "Covered Activities" for purposes of this Order: traditional loan broker arrangements between the Bank (or any subsidiary thereof) and duly licensed loan brokers who: (A) are independent contractors, (B) do not identify themselves as the Bank (or any subsidiary or affiliate thereof), and (C) contact the Bank and other lenders trying to place a loan application prepared by a customer of the loan broker.

(iv) The Bank's existing relationships with "Money's Worth", "IMS/NECDS", and "Efmark" shall not be deemed to be "Covered Activities" for purposes of this Order. The Bank, however, must submit to the OTS, within thirty days of the Effective Date hereof, TB82a Notices about the Bank's relationships with those three companies.

(v) The OTS's Regional Director may narrow the meaning of the term "Covered Activities" by written notice to the Bank.

(c) The Bank (including its subsidiaries) must, at a minimum, comply with the conditions in Appendix A to OTS Chief Counsel opinion P-2004-7, dated October 25, 2004, whenever the Bank (or applicable Bank subsidiary) enters into relationships relating to the sale, distribution, or marketing of the Bank's products and services with agents or other outsourcing parties who have not satisfied state licensing and registration laws and regulations relative to such activities.

(d) All requests for OTS non-objection under this Paragraph 2 and all related regulatorily required applications/notices shall be submitted in writing and must be accompanied by a certified copy of duly adopted resolutions of the Board of Directors of the Bank (and any relevant Bank subsidiary) authorizing the related Covered Activity or new subsidiary activity. All such submissions shall be sent to the OTS's Regional Director, with a copy sent to the OTS's Assistant Director in Massachusetts.

3. Trade Name Limitations.

Except with the prior written non-objection of the OTS, neither the Bank nor any of its subsidiaries (including but not limited to Credit Northeast) shall use a trade name or otherwise do business under a name other than the name that is set out in the company's charter (or similar corporate document). Additionally, within fifteen calendar days of the Effective Date hereof, the Bank shall submit a letter to the Regional Director that identifies all trade names (including "dba's") that the Bank and its subsidiaries have been using since February 28, 1997.

4. Restriction on Business Locations.

(a) The Bank shall not identify any location as being an office of the Bank, other than: (i) the Bank's designated home office, (ii) its duly established branch offices, (iii) its duly established agency offices (as defined in 12 C.F.R. § 545.96), and (iv) the Bank's administrative offices (within the meaning of 12 C.F.R. § 545.92(a)), located at 105 Sockonosset Cross Roads, Cranston, Rhode Island. In addition, the Bank shall not permit any agent or other third party with whom the Bank (or any Bank subsidiary) has a contractual or other business relationship to identify its facilities as being an office of the Bank.

(b) By February 28, 2005, the Bank shall submit to the OTS's Assistant Director in Massachusetts a list of the street addresses and telephone numbers of: (i) all of the Bank's current agency offices, and (ii) all offices currently maintained by each of the Bank's subsidiaries. The Bank shall provide written notification of the OTS's Assistant Director of the

establishment of any new agency offices or subsidiary offices at least thirty (30) days before establishing such new office.

5. Monthly Reporting to OTS Relating to Secure Lending Matters.

By the fifteenth calendar day of each month, the Bank shall submit to the OTS's Assistant Director in Massachusetts the two written reports identified below:

- (i) A report about any and all consumer complaints, received during the preceding month by the Bank or Credit Northeast (by mail, by telephone, or otherwise) with respect to Secure Plan Loans (defined in Paragraph 2 of the Stipulation). This report shall include any complaints made by Secure Plan Loan borrowers about any investments purchased from or through any of the Secure Companies. Each such report shall describe and identify (by customer, loan number, and date of complaint) the complaints and the manner in which the Bank and/or Credit Northeast has resolved or proposes to resolve the issues; and
- (ii) A report identifying any and all requests, received as of the end of the preceding month, from purchasers of Secure Plan loans requesting that the Bank repurchase any Secure Plan Loan sold to them by the Bank.

6. Board Compliance Committee.

(a) Within 30 days of the Effective Date of this Order, the Bank's Board of Directors ("Board") shall appoint a committee (the "Regulatory Compliance Committee") comprised of three or more directors, the majority of whom shall be "Independent of Management" (within the meaning of 12 C.F.R. Part 363, Appendix A, items 28 and 29) to monitor and coordinate compliance by the Bank and Credit Northeast with the provisions of this Order.

(b) By April 30, 2005, and thereafter within 30 days after the end of each calendar quarter, the Regulatory Compliance Committee shall submit a written progress report to the Board detailing the actions taken to comply with each provision of this Order and the results of those actions.

(c) By May 15, 2005, and thereafter within 45 days after the end of each calendar quarter, the Board shall submit to the OTS's Regional Director: (i) a copy of the Regulatory Compliance Committee's quarterly progress report required by the foregoing subparagraph, with any additional comments made by the Board, and (ii) a written certification by the Bank's Corporate Secretary, following due and documented inquiry, that each director has reviewed the report.

7. Termination of Supervisory Directive.

The OTS's Supervisory Directive to the Bank dated November 19, 2004, is hereby terminated.

8. Submissions to OTS.

Various provisions of this Order require the Bank to make submissions to OTS for its approval, non-objection or notice of acceptability. All such submissions shall be in written form, following appropriate due diligence, inquiry and satisfaction of the Bank's Board of Directors. Each such submission shall: (i) summarize the Bank's inquiry and due diligence efforts, (ii) include a certified copy of the related resolutions duly adopted by the Bank's Board, and (iii) otherwise comport with any applicable regulatory requirement governing such submissions.

9. Definitions.

All technical words or terms used in this Order for which meanings are not specified or otherwise provided by the provisions of this Order shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, the Home Owners' Loan Act ("HOLA"), the Federal Deposit Insurance Act ("FDIA"), OTS Memoranda or other published OTS guidance. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations, the HOLA, the FDIA, or OTS Memoranda/guidance shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

10. Successor Statutes, Regulations, Guidance, Amendments.

Reference in this Order to provisions of statutes, regulations, OTS Memoranda, and other published regulatory guidance shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

11. No Violations Authorized; OTS Not Restricted.

Nothing in this Order or the Stipulation shall be construed as: (a) allowing the Bank or Credit Northeast to violate any law, rule, regulation, or policy statement to which they are subject, or (b) restricting or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law including, without limitation, any type of supervisory, enforcement or other action that OTS determines to be appropriate, arising out of matters described in the most recent Report of Examination, or based on other matters.

12. Time Limits; Effect of Headings; Separability Clause; Stipulation Incorporated.

(a) Time limitations for compliance with the terms of this Order run from the Effective Date, unless otherwise expressly specified by other written provisions in this Order.

(b) The paragraph headings herein are for convenience only and shall not affect the construction hereof.

(c) In case any provision in this Order is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his/her sole discretion determines otherwise.

(d) The Stipulation is made a part hereof and is incorporated herein by this reference.

13. Effective Date; Duration.

This Order is and shall become effective on the date it is issued, *i.e.*, the Effective Date as shown on the first page hereof. This Order (including the related Stipulation) shall remain in effect until terminated, modified or suspended, in writing by the OTS, acting through its Director, Regional Director or other authorized representative.

OFFICE OF THRIFT SUPERVISION

By: 

Robert C. Albanese
Regional Director, Northeast Region